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November 1965

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INTELLIGENCE BRIEF

SHARP DECLINE IN PRICES OF PRIMARY COMMODITIES EXPORTED BY THE LESS DEVELOPED COUNTRIES

DIRECTORATE OF INTELLIGENCE

Office of Research and Reports

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SHARP DECLINE IN PRICES OF PRIMARY COMMODITIES EXPORTED BY THE LESS DEVELOPED COUNTRIES*

The decline since early 1965 in the prices of several primary commodities exported by less developed countries foreshadows serious economic consequences for many of these nations. Prices of most foodstuffs and agricultural raw materials are now well below their 1964 levels -- the prices of cocoa and sugar being at their lowest level in 20 years. Although the prices of most metals have continued to rise, the majority of less developed countries are more heavily dependent on the export of agricultural commodities for their earnings of foreign exchange, and there is little immediate prospect for a recovery in the prices of these commodities. Output of cocoa, for example, is rising faster than consumption, largely because of the introduction of more quickly maturing, heavy-yielding, and disease-resistant strains of trees. Overproduction this year has also been the bane of the countries producing sugar and coffee. The recent attempts made in Geneva to draw up an international sugar agreement as well as a world cocoa agreement will not offer any immediate relief for these two commodities.

The decline in prices of most primary products, coupled with a recent trend toward higher prices for imports from developed countries, almost certainly will lead to (a) a deterioration in the terms of trade of the developing countries as a group, (b) a deficit in the payments position of this area during the second half of 1965, and (c) an adverse effect on the economic development plans of many less developed countries. Those less developed countries which depend heavily on the export of sugar and cocoa for their earnings of foreign exchange will be particularly hard hit. These include Ghana, Togo, Cameroon, Ivory Coast, Nigeria, Dominican Republic, and Jamaica.

1. 1965 Price Trends

In early 1965 the prices of several leading primary commodities exported by less developed countries began to fall. Overall trends in these particular prices are best measured by the IBRD (International Bank for Reconstruction and Development) index that includes 22 primary commodities (excluding petroleum). By the end of June 1965, this index was 6 percentage points below the 1964 level (see Table 1). Moreover, the index would have been even less favorable for the less developed countries

* The estimates and conclusions in this brief represent the best judgment of this Office as of 12 November 1965.

Table 1

IBRD Price Index of Principal Commodities Exported by Less Developed Countries a/ 1958-65

	1958 = 100
1958	100
1959	98
1960	98
1961	93
1962	91
1963	107
1964	110
1965 (January-June)	104

a. The IBRD index is based on 22 commodities (excluding petroleum) and 30 quotations and is weighted according to 1955-57 export values.

had it not been for the buoyancy contributed by the high prices earned by most metals this year (see the chart). The majority of less developed countries, however, depend more heavily on exports of agricultural commodities, and the prices of many of these products plummeted during the first half of the year. Since then, they have remained depressed and, in some cases, have slipped even lower, clearly marking an end to the widespread price advances for most primary products during 1963-64 (see Table 2).

Among the three key food products (cocoa, coffee, and sugar) on which less developed countries are most dependent for their earnings of foreign exchange, cocoa has been particularly hard hit. A year ago the average price of cocoa was 23 cents* per pound. The present price (1 November 1965) of this commodity -- 16 cents per pound -- is above the low of 12 cents per pound reported in July but is still at the lowest average level since World War II. At a world price of 2 cents per pound, sugar too is at a 20-year low, earning only one-third of what it commanded a year ago. The price of coffee currently is more than 4 cents per pound lower than the 1964 average price of this commodity and was considered low enough recently to bring into operation the International Coffee Organization's newly created machinery for speedy quota adjustments. The average prices of the principal textile fibers (cotton and wool) exported by less

* Prices are in terms of current US cents.

developed countries also are below their 1964 average. During the first nine months of this year the average price of natural rubber was slightly above its 1964 average; in recent months, however, the price of this commodity also has slipped below its 1964 level. Metal prices have followed a different trend; their sharp rise, which started in 1964, has gained momentum and continued through the first nine months of this year.

Table 2

Average Prices of Selected Commodities Exported
by Less Developed Countries a/
1962-65

US Cents per Pound

Commodity	1962	1963	1964	1965 b/	1 November 1965 Closing Quotations
Cocoa	20.8	25.3	23.4	16.7	15.9
Coffee	34.0	34.1	47.4	45.3	43.0
Sugar	3.0	8.5	5.9	2.2	1.8
Cotton	25.0	25.5	25.3	24.9	N.A.
Wool	51.1	60.5	60.4	50.7	N.A.
Rubber	25.6	23.7	22.2	22.5	21.5 c/
Copper	30.6	30.7	33.2	35.4	36.6 c/
Tin	114.6	116.6	157.7	180.0	189.7 c/

a. The prices used in this table are as follows: Cocoa, Accra type, f.o.b. New York; Coffee, Santos No. 4, f.o.b. New York; Sugar, raws, contract No. 9, spot, New York; Cotton, Mexican matamoras 1 1/32", f.o.b. Brownsville, Texas; Wool, Australian, average price of greasy wool at auctions in Sydney; Rubber, Malaysia, No. 1 ribbed smoked sheets, in bales, f.o.b. Singapore; Copper, electrolytic, world price in New York; Tin, Straits, New York.
b. The 1965 average prices are for January-August for cotton and wool and for January-September for all other commodities.
c. 1 October closing quotations.

These price movements are the result of a multiplicity of conditions influencing both supply and demand. In general, those commodities that have suffered the largest price declines this year have been plagued by soaring production rather than sagging consumption. Output of cocoa, for example, is rising about two and one-half times as fast as consumption, largely because of the introduction of more quickly maturing, heavy-yielding, and disease-resistant strains of trees. Overproduction this year also has been the bane of the countries producing sugar and coffee.

World cotton production was exceptionally large in the crop year 1964/65 and exceeded demand by a substantial margin. The wool market has been affected by a record production in 1964/65 and by large stocks in Argentina and Uruguay. Moreover, the demand for these latter two commodities plus rubber has been dampened by the rapidly increasing use of synthetics. Production of nonferrous metals, on the other hand, has lagged behind consumption. This excess of demand over supply has been influenced by the sustained industrial growth in some of the developed countries and, more recently, by the situation in Vietnam.

2. Outlook and Implications

There is little prospect for a recovery of the prices for agricultural primary commodities during the remainder of 1965. Current indications suggest that the best that less developed producers can achieve is price stabilization at recent low levels. The attempts made in Geneva in October to draw up an international sugar agreement as well as a world cocoa agreement will not offer any immediate relief for these two commodities. Metal prices probably will continue strong, although producers of some metals may lower prices in order to prevent users from switching to competing materials.

The consequences for less developed producers of this decline in prices will be serious even if it goes no further. Almost 90 percent of the export earnings of the less developed countries as a group are derived from exports of primary commodities. Moreover, one or two commodities usually account for the major portion of the exports of individual less developed countries. Ghana, for example, depends on cocoa for about two-thirds of its export earnings; Colombia, on coffee for about two-thirds; and Malaysia, on rubber for about one-half.

Because price elasticities of demand for many primary products are low in the developed countries, the recent decline in prices implies a decrease in the foreign exchange receipts of less developed producers. It has been estimated, for example, that a decrease of 1 cent per pound in the price of coffee leads to a loss of $65 million to coffee exporters as a whole. A similar decrease in the price of cocoa results in a loss of $25 million. Export earnings from these basic commodities finance the imports needed by the less developed countries and are four times as important as foreign investment and aid in financing economic development. The recent decline in prices, therefore, will slow down many development programs of these countries. Producers of sugar and cocoa will be particularly hard hit.

Compounding the difficulties which flow from a decline in prices is the fact that export prices in the developed countries recently have edged upward. In this context, the fall in prices of primary products means a deterioration in the terms of trade of the less developed countries as a group and a deficit in their payments position during the second half of 1965.

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The Wall Street Journal, The Journal of Commerce, The New York Times, and The Economist. Various issues. Unclassified.

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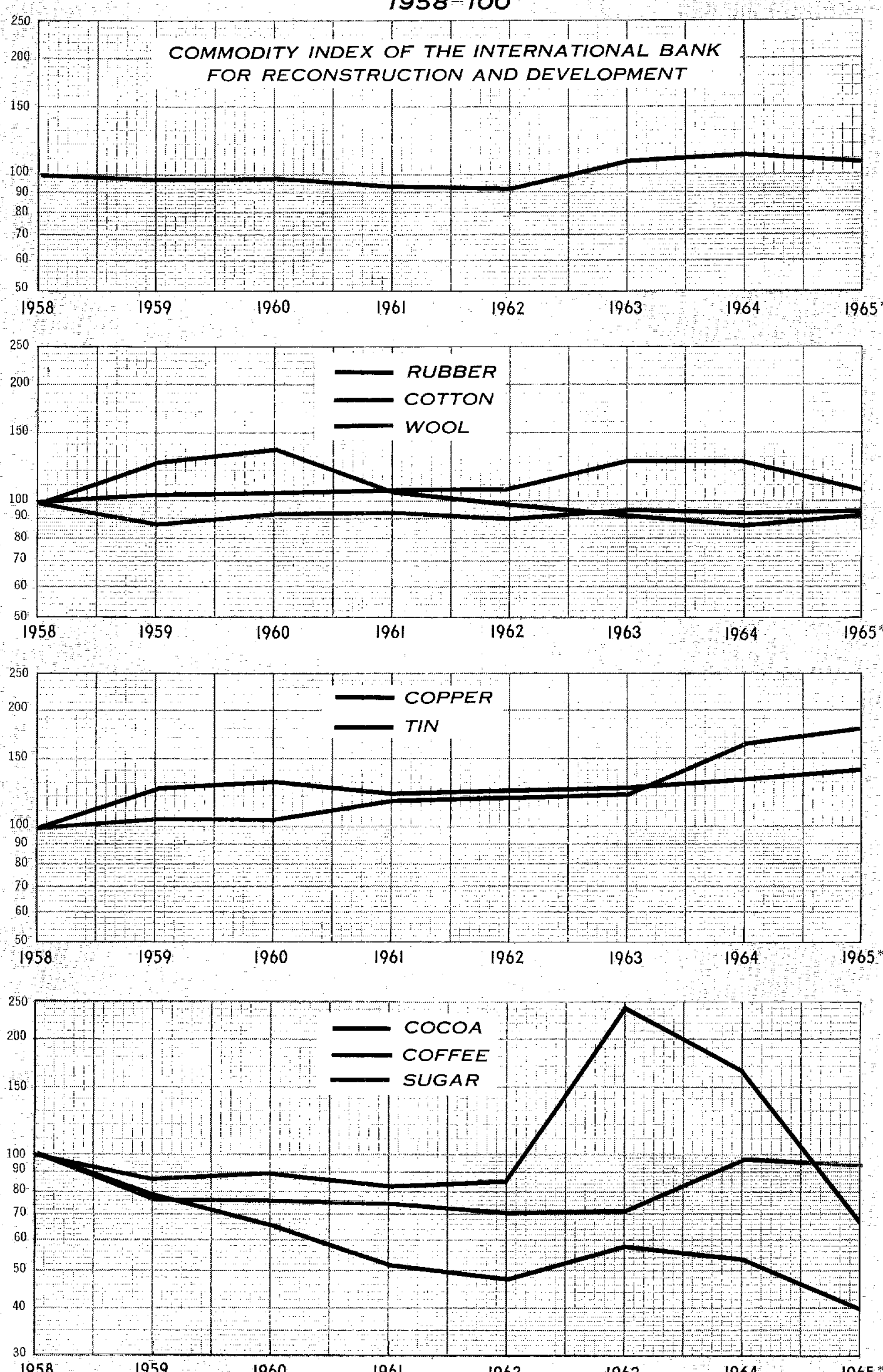
PRICE INDEXES OF SELECTED COMMODITIES EXPORTED BY LESS DEVELOPED COUNTRIES, 1958-65*

1958=100



*1965 indexes are based on average prices during January-June.

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